VETERANS' HOME LOAN GUARANTY PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES

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VETERANS' HOME LOAN GUARANTY PROGRAM

MONDAY, MARCH 19, 1984

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS,
COMMITTEE ON VETERANS' AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m. in the conference room, Alabama Farm Bureau, 2108 South Boulevard, Montgomery, AL, Hon. Richard C. Shelby (chairman of the subcommittee) presiding.

Present: Representatives Bryant and Bilirakis.

OPENING STATEMENT OF CHAIRMAN SHELBY

Mr. SHELBY. The subcommittee will come to order.

It is good to be back in Montgomery, AL, and I want to first welcome Mr. Bilirakis on my right. Mike Bilirakis is a Member of the U.S. House of Representatives from Florida. He is a Republican; he is also a member of the Veterans' Affairs Committee and the Subcommittee on Housing and Memorial Affairs.

On my left is Congressman John Bryant. He is a Democrat from Dallas, TX, and a member of the Subcommittee on Housing and Memorial Affairs. They are both, I believe, in Montgomery, AL, for the first time. I want to welcome them. I do appreciate them coming to the field hearing.

The purpose of the hearing is to have some local input from the State of Alabama and from the VA regional office, on the impact of this proposal by OMB, to change the home guaranty program of the Veterans' Administration. What would it do to the VA home loan guaranty program? I thought we would bring the field hearings home, and I'm honored that my colleagues have joined me here in Alabama today. I am looking forward to hearing the testimony by the various witnesses.

I believe that basically this hearing will focus on a proposal contained in the 1985 budget that the Veterans' Administration no longer respond to defaults on VA-guaranteed loans by acquiring foreclosed properties, but would pay all lending institutions involved the guaranteed portion of the loan and leave the loan holder to dispose of the property.

We have heard some testimony, and I have talked to a lot of people across the Nation, that say that this would be a disaster to the program. That is why we are here today, ladies and gentlemen.

Without further ado, I am going to recognize the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. It is great being here. I am a Gator from the University of Florida, so I have been in your

State a number of times for football games and a few other things. This is another illustration of bringing Congress to the people. It is very difficult to bring the people to Congress, and this is why I feel that field hearings are a great idea, and this particular subject, of course, is a very key one.

We are greatly concerned about the recommendations you mentioned. They seem not to be from a real world standpoint. We are greatly concerned about them, and a hearing such as this, we feel sure, will add more ammunition to our arguments to prevent them from being adopted. So I am very happy to be here, Mr. Chairman. Thank you.

Mr. SHELBY. The Chair recognizes now the gentleman from Texas, Mr. John Bryant.

Mr. BRYANT. Thank you, Mr. Chairman. I am glad to be here. I appreciate very much having the chance to come. I would like to commend you and thank you for your leadership of our subcommittee, and particularly in taking this very important issue, that is important not only to Alabama, but to the 65,000 veterans in my congressional district in Dallas County, TX, and bringing this issue to the public for public response. I think it is clear that the pending proposal is one that is going to have a very negative impact on the whole program, if not eliminated entirely, and, therefore, a negative impact on the veteran citizens of our Nation that we have a special obligation to serve. Chairman Shelby, I appreciate your invitation to be here today.

Mr. SHELBY. Our first witness will be Mr. Walter Bamberg, district representative for Congressman William Dickinson.

Mr. Dickinson talked with me the other day. He said that since we were in his hometown, in his home district, he did want one of his staff people to present his views. I think he has a prior commitment in California.

Mr. BAMBERG. Right.

STATEMENT OF WALTER BAMBERG, FIELD REPRESENTATIVE FOR CONGRESSMAN BILL DICKINSON

Mr. BAMBERG. Thank you very much, Mr. Chairman. I am as you said, Walter Bamberg, and I am a field representative for Congressman Dickinson, and of course he represents Montgomery and the Second Congressional District in the Congress. Congressman Dickinson asked me to relay his regrets to the committee for not being able to be here.

Congressman Dickinson feels that these hearings will review the Veterans' Administration's home loan guaranty practices and the workload and quality of service provided by Alabama's regional office, and are indeed timely in view of the proposed changes in the home loan guaranty program, and Congressman Dickinson would not want any precipitous action taken that would adversely affect the veteran's ability to purchase a home, especially those first-time veteran homeowners. Thus, testimony to be heard today will be of major importance to your committee's future considerations.

Congressman Dickinson especially wants to thank his friend and colleague, Mr. Shelby, chairman of the subcommittee, for conducting these hearings in Montgomery, and he extends to each member

of the subcommittee here today—our neighbors, Mr. Sundquist of Tennessee, who I do not believe is here today——

Mr. SHELBY. He has got the flu.

Mr. BAMBERG. He has got the flu, OK—Mr. Bilirakis of Florida, and our friend Mr. Bryant of Texas, and members of the committee staff, we extend to you our warmest welcome. Our offices are yours, and please feel free to call on us for any assistance we might offer during your stay here, and, again, we just want to welcome you to the heart of Dixie, Montgomery, and the Second Congressional District.

Mr. SHELBY. Thank you. We appreciate your comments. Our first panel will consist of Mr. James Conway, Director of VA regional office, accompanied by Mr. Henry Moody, loan guaranty officer; Donald Leavell, chief, loan service and claims; Annelle D. Tillery, chief, property management; and Lawrence Kloess, District Counsel for the Veterans' Administration office here in Montgomery, AL.

Your written testimony will be made past of the hearing record.

STATEMENT OF JAMES W. CONWAY, DIRECTOR, VETERANS' ADMINISTRATION REGIONAL OFFICE, ACCOMPANIED BY HENRY D. MOODY, LOAN GUARANTY OFFICER; DONALD M. LEAVELL, CHIEF, LOAN SERVICE AND CLAIMS; ANNELLE D. TILLERY, CHIEF, PROPERTY MANAGEMENT; AND LAWRENCE H. KLOESS, DISTRICT COUNSEL

Mr. CONWAY. Thank you, Mr. Chairman.

We appreciate very much the opportunity to be here with you this morning to discuss the operation of the Veterans' Administration housing program. We are very pleased with the success of the GI home loan program in Alabama. Since Congress enacted the law establishing the program some 40 years ago, we have guaranteed over 175,000 home loans in the State, totaling over $3.5 billion. Of this number, 89,000, more than half, have been paid in full.

Now, Mr. Chairman, as you mentioned, I do have a statement that is going to be submitted, and I am going to attempt to summarize and hit the high points here.

I wanted to mention especially our special adapted housing program is still very much an active part of our program in this area. In fiscal year 1983, we assisted 17 severely handicapped veterans in either acquiring a specially equipped house with a maximum grant of $32,500 or in making some adaptations to a home that the veteran already occupies with a maximum grant of $5,000. Over 1,300 man-hours were devoted to this very sensitive portion of our loan guaranty program.

As the cost of conventional housing rises, we find our mobile home program is steadily growing. The number of loan applications increased 150 percent in fiscal year 1983.

In addition to our mobile homes, other alternative housing, such as condominiums and planned unit developments, are receiving more and more attention in Alabama. We are directly involved in the planning and development of many of these projects.

While our office has generally been able to stay within the agency's established time and quality standards on major work ele-

ments during fiscal year 1983, we did experience some problems due to the increased workload. Our central office readily recognized the need for some relief and temporarily reduced the required number of postaudit loan application reviews, staff field review of appraisals and compliance inspections, review of management brokers' initial property inspections, et cetera.

The quality of some program surveillance has not been as thorough as desirable under normal circumstances. Also, as defaulted loans increased, we have of necessity had to curtail the quality of our supplemental loan servicing. While we are still able to make contact with most debtors prior to foreclosure, the time needed for followup visits is not available. This has come about because the caseload per loan service representative has increased from about 75 cases per month to over 350 cases per month.

To handle the increases in appraisal activity, loan applications, offers to purchase properties in inventory, et cetera, we worked as much overtime as possible and detailed employees from other divisions where feasible. I would have detailed or reassigned more people to loan guaranty, but then our other programs would have suffered because of the workload throughout the regional office being relatively heavy.

Assuming the economy and interest rates remain relatively stable, I do think we will need all of the resources presently allocated to our loan guaranty program. We all know, however, that should interest rates decline the resulting increase in workload would make it very difficult for us to continue to render good service to our veterans, mortgage bankers, builders, realtors, and other program participants.

Mr. Chairman, you requested that I give my comments on a proposal contained in the fiscal year 1985 budget relating to a change in the manner the Veterans' Administration presently handles guaranteed loan foreclosures.

Specifically, the proposed change would stipulate that VA pay the holder the guaranteed portion of the loan in the event of foreclosure and not take title to the property as we currently do in most cases. As you know, the implementation of this proposal would be delayed while a task force consisting of VA, FHA, Farmers Home Administration, and OMB develop a uniform Federal standard to determine when it would be in the best interest of the Government to acquire properties in the Federal Housing Program.

Nevertheless, I have some information that might be of interest to you and your committee.

Since fiscal year 1972, we have guaranteed over 64,000 loans in the State of Alabama. Of this number, 2,319 have been foreclosed. During fiscal year 1983, we foreclosed 580 guaranteed loans, and, after paying for acquisition costs, management fees, necessary repairs, and a 5-percent sales commission, our average loss per property sold during that period was $4,184.

I wish to point out that this average loss per property is much higher than any year excluding one, since 1967. Although we did not have complete and accurate figures readily available to us, we randomly selected 10 percent of the 580 cases foreclosed during fiscal year 1983 and found that the average guaranty payable would have been $17,044.

Mr. Chairman, in conclusion, I think that our Loan Guaranty Division has continued to give timely and quality service to all of our program participants comparable to any other station. For several years we have generally given 1-day service on loan applications and final compliance inspection reports, which, I am told, we are one of the few stations offering this service.

This concludes my prepared statement, Mr. Chairman. We will respond to any questions that you might have, sir.

[The prepared statement of Mr. Conway appears on p. 21.]

Mr. SHELBY. If you had 64,000 home loan guarantees during this period, 1972, forward, and you only foreclosed 2,000 out of that——

Mr. CONWAY. That's correct, sir.

Mr. SHELBY. That's a pretty good ratio, isn't it?

Mr. CONWAY. It is, very good.

Mr. SHELBY. You must be doing something right here in Alabama.

Mr. CONWAY. Well, I think my loan guaranty officer would be better prepared to respond, so may I defer to him.

Mr. MOODY. Well, I think the first credit probably goes to the mortgage bankers. They do not usually submit loans that are not pretty good, but we are proud of our record; as you can tell, that is 3.6 percent.

Mr. SHELBY. How does that compare to the rest of the country?

Mr. MOODY. I think that is close to the national average.

Mr. SHELBY. So there is good underwriting around the country.

Mr. MOODY. Yes, sir.

Mr. SHELBY. Mr. Conway, if this proposal by OMB were to go into effect, and we hope that it does not, what would that do to severely handicapped veterans in acquiring a home? Would that affect it?

Mr. CONWAY. I do not believe that would affect that particular program, sir, because of the $32,500 grant that you get for that particular program.

Mr. SHELBY. Could it affect the overall underwriting criteria that the mortgage bankers use?

Mr. CONWAY. Mr. Chairman, I believe it would have an adverse effect. I believe that the mortgage bankers would be a little more stringent in their requirements and in the underwriting procedures. I think a number of veterans who might qualify now for a home loan would not qualify if this change were to go into effect.

Mr. SHELBY. The Chair recognizes the gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman. Just one quick question, and then one that will take a little while longer. You referred to page 4 of your testimony, sir, that while you are still able to make contact with most debtors prior to foreclosure, the time needed for followup visits is not available.

How does that come about? How do you find out that one of the veterans is maybe approaching foreclosure point? Do they contact you? Do they come into the office for counseling? Do they advise you in some way? How do you know there may be a foreclosure imminent and consequently you should get into the act?

Mr. CONWAY. Sir, I would like to defer that question to Mr. Moody, if I may.

Mr. SHELBY. Henry Moody is head of the loan guaranty division.

Mr. MOODY. Mr. Bilirakis, we are notified automatically when loans are getting in default, and, of course, the mortgage lenders are required to notify us, I believe, when they are three payments down, and we at that time—of course, as soon as we are notified, we attempt our first contact, and there is still time before foreclosure, and the second contact we have trouble making. We prefer to do it face to face.

Mr. BILIRAKIS. What do you do when you make contact with these people? What sort of help are you able to offer them?

Mr. MOODY. We find out all we can about their financial situation and offer financial counseling if they want it. Of course, we are very fortunate in Alabama again, where the mortgage bankers work with us. They will do almost anything we ask them to do, to a point.

Mr. BILIRAKIS. All right, going back to the last page of Mr. Conway's prepared testimony on these figures regarding foreclosed houses. The $4,184 average loss per property sold, I understand that that is approximately half of the national average. Are you able to confirm that?

Mr. MOODY. I do not believe it is quite half. I think it is somewhere around $10,000 probably.

Mr. BILIRAKIS. All right. Then my question is, why is it that your loss is less than on a national average basis?

Mr. MOODY. Well, when you get to national average you get some pretty depressed areas—Detroit, Cleveland, and areas like that, that's really been hurt more than Alabama perhaps, and the value of property has gone down, certain people don't have jobs, and the holding time, keeping the property once we get it, is less than some of theirs.

Mr. BILIRAKIS. You are attributing your lower loss to the fact that maybe you don't have as long of a holding time as some of the other areas?

Mr. MOODY. That is correct, yes, sir, that is one of the reasons.

Mr. BILIRAKIS. Are there any other things that you might be doing from an efficiency standpoint that possibly some of the other areas might not be doing?

Mr. MOODY. Well, we like to think that—what we have talked about already, that the underwriting is pretty good. Starting with the appraisal of the property, we think we get generally good appraisals, sound appraisals, you know. I think all of those things have something to do with it. Incidentally, I might mention that the average loss since 1967 is $1,800.

Mr. BILIRAKIS. The average loss in Alabama?

Mr. MOODY. Since 1967, yes, sir.

Mr. BILIRAKIS. Now, do you ever rent these properties, in an effort to try to make up some of these losses?

Mr. MOODY. Yes, sir, we do get into a rental program when it is necessary. Our first desire and first priority is to sell as soon as we can. That is what we want to do, but certainly in the last couple of years we have had a rental program going.

Mr. BILIRAKIS. Mr. Chairman, the fact that these homes were treated in accordance with the recommended change would result in an average guaranty payable of $17,044 means a 4-to-1 ratio loss to the Treasury. Isn't that ridiculous?

Mr. SHELBY. It does not make a bit of sense to me. I believe the program is working here in Alabama and I know it is working in some other States. We might need to tighten up but not to destroy the program.

Mr. BILIRAKIS. Well, I mean if we take the $10,000 average nationally, and equate that with a $17,000 guaranty that would be paid out lost there, you can see——

Mr. MOODY. The national average guaranty would be $19,500, so it would make a difference, yes, sir.

Mr. SHELBY. If the gentleman would yield, could I ask the area of foreclosures in Alabama in the last several years. Are they in the very industrial area of Birmingham and others where the unemployment is a little high?

Mr. MOODY. Certainly Birmingham was—we had the bulk of foreclosures there for two reasons, the economic conditions were worse, and we guaranteed a lot of loans in Birmingham too, plus the tri-cities was hit pretty heavily—Gadsden, Mobile, and Montgomery to a lesser extent.

Mr. SHELBY. A lot of it is tied to the national economy and the regional economy as well.

Mr. MOODY. Yes, sir.

Mr. SHELBY. Thank you.

Mr. BILIRAKIS. I do not know that I have anything further, Mr. Chairman. In the hearings that we held—I believe it was last week on the same subject, I am sure that it was brought out, that the average guaranty payable would have been so much more under this proposal than the actual losses that are now incurred by foreclosing on those properties and then reselling them. That is unbelievable.

What reason could the administration have to make a change if it is not to save dollars? Not that that is not a good enough reason.

Mr. SHELBY. If the gentleman will yield, I think the administration has not really examined the program in detail. Maybe with these field hearings and our recommendations, perhaps legislation, they will take a second look at this thing.

Mr. BILIRAKIS. Thank you again, Mr. Chairman. I commend you even more for holding this hearing. I certainly learned something and I appreciate very much the testimony of Mr. Conway and Mr. Moody and the other fine gentlemen.

Mr. SHELBY. The Chair recognizes the gentleman from Texas, Mr. Bryant.

Mr. BRYANT. I want to ask you, Mr. Conway, what your opinion is regarding negotiating interest rate?

Mr. CONWAY. Thank you, sir. Well, first I believe that for the first-time buyers particularly, they are not very familiar with discounts. Therefore they are more comfortable with a fixed interest rate. Borrowers generally feel like they are being offered some protection with a fixed interest rate. I believe, sir, as long as the Administrator responds rapidly to change, to changes in the market, that we can operate our program with fixed interest rates very favorably.

Mr. BRYANT. Have you studied the question in the past? Was that your perception—have you all done any studies that would indicate there was some perception of your clients and your agency?

Mr. CONWAY. We have not done any particular studies up to this point.

Mr. BRYANT. What is your feeling about the VA adopting a policy similar to FHA's direct endorsement underwriting program?

Mr. CONWAY. I would like to defer that to my loan guaranty officer.

Mr. SHELBY. Mr. Moody.

Mr. MOODY. First, we have a similar program as far as processing loan applications. We have an automatic processing program whereby the lender can approve the loan. We have had that for many, many years.

Mr. BRYANT. How does that work, Mr. Moody?

Mr. MOODY. OK, under this program, of course, the lender still has to get the appraisal and preliminary data, but when they get all of the material they need and approve the loan themselves and simply send it to us to issue the guaranty. Now, we would be concerned about lenders using their own appraisers. We believe appraisers have to remain independent in order to render an unbiased and fair opinion. That probably would scare us more than anything else.

Mr. BRYANT. What about your feeling about continuance of the special interest rate deviation for VA acquired property sales?

Mr. MOODY. OK. Alabama was one of 14 States that this was used on, experimented on, and it has worked extremely well for us. We sold over 300 properties under that program. Just so everyone will understand. If interest rates on GI loans was 13 percent or above, we were permitted to sell certain properties at 2 below or 11 percent, and if it was below 13 percent the special rate was 1 below.

That authority expired January 1 of this year, but we would certainly like to see it cranked up again for us, and again, just in special areas, special properties that have been on the market for 6 or 8 months.

Mr. BRYANT. What is your opinion with regard to whether or not the proceeds from the users fees be placed in the VA loan, guaranteed revolving funds?

Mr. MOODY. Certainly VA has wanted those funds placed in the revolving fund all along, and last year we collected, just here, $1.3 million, which would have been a pretty good help for the revolving fund.

Mr. BRYANT. That's all I have, Mr. Chairman.

Mr. SHELBY. Thank you, Mr. Conway. We appreciate you being here today.

Mr. CONWAY. Thank you very much.

Mr. SHELBY. The next panel will be Mr. John Holleman, president and chairman of Real Estate Financing, Inc., and he will be accompanied by Ms. Jean Seale, vice president of the company, Mr. John Yelverton, executive vice president of the company, and Mr. Joseph Wells, executive vice president, Engel Mortgage Co., and Mr. Ronnie Wynn, president of Colonial Mortgage Co.

Gentlemen, if you all will come up. All of your written testimony will be included in to the record. If you will briefly sum up your remarks we will have time to ask questions.

STATEMENTS OF JOHN HOLLEMAN, PRESIDENT AND CHAIRMAN, FIRST ALABAMA REAL ESTATE FINANCING, INC.; MS. JEAN SEALE, VICE PRESIDENT; JOHN YELVERTON, EXECUTIVE VICE PRESIDENT; JOSEPH WELLS, EXECUTIVE VICE PRESIDENT, ENGEL MORTGAGE CO.; AND RONNIE WYNN, PRESIDENT, COLONIAL MORTGAGE CO.

Mr. HOLLEMAN. Mr. Chairman, members of the subcommittee, I am John A. Holleman of First Alabama Real Estate Financing, Inc., and I appreciate the chance to appear today, and think it is going to be a very effective meeting, as we have already heard some very invaluable data coming out.

We have been a very aggressive lender in the State of Alabama. We are a regional mortgage banking company dealing in the five Southeastern States. The volume of our business is predominantly Alabama. We have in excess of 10,000 veterans' loans on our books, which is more than a quarter of our total loan portfolio.

We have at all times in the past accepted the VA's criteria and decisions on the underwriting and their guaranteeing of loans. We think that the change to have us be in the business ourselves as far as property disposal would create a new phase of our business. We do not have a property disposal section as such. We have not done this type of work as such for some time. This would give us an additional risk as we have seen. This risk might generate profit if we get a high guaranty paying our disposal costs, but that is not our business.

That is not historically our business. We service loans and get a fee for this service. In the case of foreclosure, our expenses are very excessive. We spend more money in the collection and foreclosure process. We lose interest on the loans after they have been foreclosed and until we take them out and collect our full payment from VA. This loss will range from $1,000 to $2,000.

In the case of having to go through the property disposal, we have to have a section for that. The expenses could run more. This would give us, as good businessmen, a response that we would have to take. This response would be to look definitively at the properties. In other words, the greatest risk of loss would be, say, in a very rural area, where it would be difficult to dispose of the property. If it's a farm, and a long way from a paved road or something like this, this creates a difficulty with property disposal. This would give us a difficulty in the urban area—in an area like Birmingham, where you have a very depressed area.

This would make us reluctant to lend in these areas, and this is part of the VA program that I think is very important—to lend in depressed areas, not just the good areas.

We would also have a problem with the underwriting with a lot of 100 percent loans. VA loans are the only ones where you can borrow 100 percent of the cost of a house. As a credit type of business, we would have a problem with that. We would have a problem with the marginal credits and the 100-percent combination.

This would have restrictive lending on the past years to people who are just getting out of the military, and we have a lot of that in Montgomery. People starting off with a family and being a marginal credit. They would not have been able to buy a house, and if

they moved into an apartment right now, or in the last 5 to 7 years, ren[illegible] marginal houses, and wouldn't be building up any equity. It would have frustrated one of the best housing programs that I think we have in this country.

I have been a student of housing programs for a good many years. My uncle, Albert Rains, was in Congress for a good many years and was very responsive to housing——

Mr. SHELBY. He was an outstanding Congressman, and very active in the formulation of a lot of the housing programs. I think that this housing program is one of the best programs we have.

Mr. HOLLEMAN. So I think that a change of this nature, one, is a retroactive change. We made these loans, and it was business based on the concept that VA would serve as the property disposer, and that they would do the business, that they would pay the property off rather than pay the guarantee. There is no way to go back and undo loans that we would not have put on the books if the situation had been different, but we would be restricted on these loans.

We think that if we continue as we do now, since this has been brought into our view and made us aware of the possibilities, that the ball game can change. There should be an affirmative statement, so to speak, that we will not change retroactive in the future, if the change is made, that it be on a continuing basis. VA loans made after such and such a date would have the new rules to play by, and that would give us something that we can live with.

Now we are free in staying with the status program. The system that we have without employing more stringent controls, rather than being afraid that the next commission came up, might make the same recommendation.

To complete that and address another phase of your investigation, we feel that the Alabama VA has done a great job. Jim Conway and Henry Moody are excellent people to work with, and as you can see, they have done a good job in property disposal, underwriting of the entire scheme of things.

Recently it has been pretty well traumatic from a personnel standpoint, as a mortgage company, from 1982 to 1983, we increased from 141 employees to over 200, and we are still technically involved in producing our loans and doing our business. I cannot imagine operating under a restrictive personnel concept during this period of time, which they have done and doing it with very excellent results, but nobody can manage to such an extent that they do not have to be responsive to workloads.

The working relationship has continued well through this, and we feel that—like I say, we deal in five States. This is the best State as far as relationships. We are proud that most of our volume is with them.

That is actually the main thrust of my statement.

Mr. SHELBY. We appreciate your testimony.

[The prepared statement of Mr. Holleman appears on p. 22.]

Mr. SHELBY. Mr. Wells.

STATEMENT OF JOSEPH R. WELLS

Mr. WELLS. Yes, sir, I am Joe Wells, Chairman Shelby, and I want to welcome you not only to Alabama, but as one of your constituents and a proud veteran, and a member of a big, large banking organization in the State of Alabama, Engel Mortgage Co., a wholly owned subsidiary of Amsouth Banking Corp. I think you all need to know that to know where I come from.

Mr. SHELBY. Your written testimony will be made a part of the record without objection.[1] Please sum up your remarks. This will give us some time to ask questions.

Mr. WELLS. In my written testimony I will point out to you that Engel Mortgage Co. operates in 15 States, and we service approximately $2 billion worth of loans. There are 63,000 of these loans; 24,000 of Veterans' Administration guaranteed loans.

We operate our company around military bases, very heavy in the VA and FHA mortgage lending business. To summarize what Johnny Holleman said before—not to go through all of these statements again—we feel that changing the way defaults are handled in the VA would definitely change our way of operating.

We would not be willing to take the higher risk of 100-percent loans, and we would require heavier downpayments. We would be very stringent in our underwriting department, just from a pure practical business standpoint.

Testimony by the VA has already pointed out that the lawsuits on these loans would be in excess of probably $10,000 more than the guarantees paid, quite frankly, and in some cases the mortgage banker would make money by doing it this way.

We might as well be realistic about it. The way it is done when an upset price is not set at foreclosure, the VA has always had the option to dump the dollars to mortgage lenders and occasionally they will do this. We recognize that and we are willing to take that risk.

We would like to see the system changed, obviously. It is all or nothing, and we are prepared to keep the status quo, but we are willing to take the risk and sometimes having to take the property and dispose of it. We do that now. We would not like to take all of these properties, obviously, because in the long run I believe the veterans program would suffer because the new home buyers are going to pay the cost of the increased underwriting costs, increased discount points, and we have to market these loans, and obviously we have got to market them and we are going to have to pick up that cost someplace. Thank you, sir.

Mr. SHELBY. Mr. Ronnie Wynn may be a stranger to some of you, but he has testified in Washington, on the housing developments, and he is president of Colonial Mortgage. Mr. Wynn.

Your written remarks will be submitted for the record without objection.[2]

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[1] See p. 24.
[2] See p. 25.

STATEMENT OF RONNIE WYNN

Mr. WYNN. Thank you. I, too, will avoid repeating the remarks that have been made earlier. Certainly I think that the Grace Commission in good faith is attempting to help save money and help cut the deficit but has overlooked some very important financial facts.

This relates to the acquisition of properties versus paying the guaranty. I think it goes without saying that we do not feel, as mortgage bankers, that the program should be changed in that respect.

Alabama has been very fortunate to have a VA program administered as efficiently and as effectively as they have under the leadership of Mr. Conway and, of course, under the leadership of Henry Moody as loan guaranty officer.

I would like to concentrate my remarks quickly on some areas, if I might.

First of all, the increase in the maximum guaranty which you and others have proposed to be raised from $27,500 to $30,000. This is very important because since 1974 the median price of a new single-family home has jumped from $39,500 to $75,100, or a 109-percent increase.

We feel very strongly a continuing review and increase in the guaranty must be accomplished in order for these ratios to allow the veterans to enjoy the benefits of the increased pricing of houses.

Two other areas—FHA, VA interest—we feel the real world now, the economic conditions. The fact that credit is no longer restricted within a few lenders, the new disclosure laws, and many other things that have taken place in a very short time, a very short few years, now requires the VA to look very strongly at adjustable rate mortages and to look very strongly at freeing the rate to the market. We feel these must be done in order for the veterans' program to keep parity with the other mortgage programs that are available to borrowers.

Again, we appreciate the representation that you and your committee give us who are citizens and veterans in the State of Alabama and Washington, and we are glad to have you in Montgomery.

Mr. SHELBY. I would just like to ask the panel one basic question. In your testimony, and the testimony of Mr. Conway, Mr. Moody, and some others, I have the impression that if this proposal by the Grace Commission were to be implemented it would cause a rethinking of the underwriting requirements that the mortgage bankers and the VA have. Further, it would deny a lot of the veterans, first-time veterans, young veterans, and so forth, an opportunity to own homes. Would that be a fair statement?

[Mr Wells, Mr. Wynn, Ms. Seale, and Mr. Holleman nodding heads affirmatively.]

Mr. SHELBY. The other thing that I gather here is you are not in the real estate business. You are in the mortgage banking business; you serviced these loans that are underwritten; you are not brokers of real estate. Is that the point you are making?

[Panel nodding heads affirmatively.]

Mr. SHELBY. This would be changing the rules that you have relied on so long, and could really cause havoc in the marketplace.

[Panel nodding neads affirmatively.]

Mr. SHELBY. The gentleman from Florida, Mr. Bilirakis.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

What is the average—I am talking approximations here—of the purchase prices of these homes, in say Alabama, that the veterans are purchasing through the VA program? What is the average?

Mr. HOLLEMAN. On the loan program books, I would say an average of about $35,000. The more recent loans of course are much higher than that; $55,000, I would say.

Mr. BILIRAKIS. Do you use the same appraisal guidelines on VA loan homes as you do on conventional loans?

Mr. HOLLEMAN. Basically the same appraisal. There is a little difference in the formulas. We use the same appraisers.

Mr. BILIRAKIS. Same appraisers, same guidelines?

Mr. HOLLEMAN. Yes.

Mr. BILIRAKIS. Do you ever find that these homes might be overpriced at the time that the veteran buys them?

Mr. HOLLEMAN. I assume it is a relative thing. I think any home could be overpriced. I think it would not be the norm for it to be overpriced, and I think there is one thing that would be more important in the variable rate or the negotiated rate by concept.

Now, there is a certain pricing in of discount on the FHA rate now, when the builder can sell through a zero discount he doesn't have to price under discount, and I think you will find in a lot of the major metropolitan markets the appraisers do kind of give some credibility to the discount structure. If you have a negotiated rate, you can appraise based on the zero discount and therefore have a lower house price.

This is a personal impression rather than a numerical definition but a lot of markets—most of your aggressive markets, the builders seem to have enough in their appraisals to pay down, tie down loans, tie down interest rates, pay substantial discounts and get lower rates to influence the buyer to make that initial purchase, and they should not have that if they are not giving any credit in the appraisal.

Mr. BILIRAKIS. My concern is about giving the veteran an opportunity to build up equity. Why would the veteran want to pay probably a higher mortgage principal interest than renting, if you will, unless it is to realize the American dream of being able to own his own home, but if they purchase these homes at a price considerably over the market value, then they would not actually build up any equity to speak of for many, many years, and that is a great concern of mine.

Mr. SHELBY. Would the gentleman yield?

Mr. BILIRAKIS. Yes, sir.

Mr. SHELBY. I know they understand it, the mortgage bankers, the VA loan guaranty officers, and the directors—they understand it is not to anybody's advantage to overprice any property in any way.

I do not know of any guaranty officer that would want to approve a loan that he thought in any way was overpriced or overvalued. You certainly would not want to buy it, would you?

[Panel nodding heads negatively.]

Mr. BILIRAKIS. Well, they are very concerned with the home coming back to them because the VA would in fact take it back on foreclosure and then have to dispose of it. The lender may not be quite as concerned, with the value placed on it at a time it was sold to the veteran, but as far as the builder is concerned, it is to his advantage.

Mr. HOLLEMAN. We don't select the appraiser. We do not influence—that is the VA's responsibility. We are concerned because most of the VA loans are not 100 percent now.

Mr. WYNN. We are concerned because most of the VA loans are not 100 percent loans, but getting back to security pool of which when we have to foreclose we have lost ourselves, and Mr. Holleman mentioned—his number was $2,000 per loan, and ours would be somewhere on the lower end of that, so the VA is not in today's marketplace—the VA and the Government are not the only people who suffer losses on foreclosures. We also suffer losses with VA loans.

Mr. WELLS. Our numbers run a little over $1,000 every time we foreclose a VA loan. That's direct cost to our company.

Mr. SHELBY. That's just not a good record for you as a mortgage banker or for the loan guaranty officers.

Mr. WYNN. I think that the numbers that were brought out earlier and what is the disposal cost in this State as compared to what the VA national disposal costs are, would indicate that at least in the State of Alabama, as was concentrated on this morning, a better than average job is being done in the appraisal system——

Mr. BILIRAKIS. I appreciate that. That is a good point. Again, our concern here is that we care about the veteran, and I think most of the people do, and we are not doing our boys and girls any good if we are encouraging them to go into overpriced homes just because it is a no-downpayment situation, and they end up paying considerably more on a monthly basis. Thank you very much.

Mr. SHELBY. The Chair recognizes the gentleman from Texas, Mr. Bryant.

Mr. BRYANT. I would like to ask the panel a specific question with regard to what you think the final impact would be if this—you have suggested a lot of negatives associated with it, but my question is, would you feel that this would kill the VA program?

Mr. HOLLEMAN. I do not think it would kill the program. I think it would increase the costs to the Government and I think you would crowd out some of the areas in which you finance homes now that you would not be able to finance homes in the future.

Mr. WYNN. Of course I think one of the biggest problems would be the price would be passed on to the veteran. Historically this would happen. This would now become more like a traditional loan. Historically conventional loans have carried a premium over a VA loan, of 1½ percentage points. I saw an article in the Washington Post last Thursday morning that indicates that within a half of percent of difference in interest rate—something like 200,000 homes will not be started, and they have that many more for existing sales.

So you can say that in effect, rather than being a 12½ percent VA interest rate today, we would have a 14 percent rate for VA

loans, how many more veterans would not qualify to begin with, and second, how much higher those that did would have to be paying in monthly payment. So I see it as much as anything, being a detriment to the veteran because of the price that he would have to pay that's going to be passed on to him.

Mr. Bryant, I would say in my best southernese of these guys, "If it ain't broke, don't fix it." It ain't broke.

Mr. SHELBY. Gentlemen, I appreciate your appearing before the committee. I think you are just seeing the beginning of the problem here and we are going to try to work with the veterans to try to do something about it.

Thank you.

Mr. SHELBY. Our next panel will be a group representing the various service organizations: Mr. Isaac Nelson, commander, Department of Alabama, Disabled American Veterans; Mr. William Cowart, service office, Paralyzed Veterans of America, and Mr. Charlie Cook of Greater Birmingham Ministries here.

Your written testimony will be made part of the record,[1] and if you will briefly sum up your remarks, this will give us a chance to ask you some questions.

You may proceed.

STATEMENTS OF ISAAC NELSON, COMMANDER, DEPARTMENT OF ALABAMA, DISABLED AMERICAN VETERANS; WILLIAM COWART, SERVICE OFFICER, PARALYZED VETERANS OF AMERICA, AND CHARLES COOK, GREATER BIRMINGHAM MINISTRIES

Mr. NELSON. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, on behalf of the 10,858 members of the Disabled American Veterans in Alabama, I appreciate the opportunity to present our views on legislation and issues relative to the home loan guaranty program of the Veterans' Administration, and I thank you for being here.

I believe that our national officers have already testified before the full committee and the subcommittee on this and given their views, but we appreciate the opportunity to just come today and to be recognized and add just a few more remarks.

As I stated in my prepared statement with the advent of World War II, several satellite programs were added to the Veterans' Administration program, and one of the most successful has been the home loan guaranty program.

We oppose the legislation presented by the Grace Commission on the basis that it would provoke lenders to tighten criteria for loan eligibility, thus excluding many veterans from purchasing homes, especially the younger Vietnam veterans.

This was pointed out by members of the mortgage companies to show that they are in the business of making loans, and are not in the business of disposing of houses and other types of product.

Mr. George Will made a statement in one of his syndicated columns that Mr. Grace compared Government to private industry. Private industries are in the business of making profits, whereas

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[1] See p. 26.

the Government is in the business of rendering service. We feel that this is the thing that should be done with this program, to render service to the veterans.

I have on occasion called upon the loan guaranty officers of the Veterans' Administration, and other members of the Loan Guaranty Division to assist us in obtaining loans for veterans, and some of them have worked overtime in order that the veteran might get a better interest rate by closing today rather than waiting until tomorrow, and they have been very cooperative.

They have been very cooperative with us and all of the other veterans organizations and we appreciate this and we would like to see the program continue as it is.

Again, let me thank you for the opportunity to testify before your committee, and the Disabled American Veterans of Alabama certainly appreciate this opportunity.

Mr. SHELBY. Thank you.

Mr. William Cowart, Paralyzed Veterans of America.

STATEMENT OF WILLIAM COWART

Mr. COWART. I believe that all of our statements have been made by our national committee. I am here today to represent the Paralyzed Veterans of America, and I would like to say that the Loan Guaranty Division here in Alabama seems to be working quite well as far as I am concerned. Being catastrophically disabled, it has helped me since I moved to the Montgomery area in locating a house and I am in the process of purchasing one through the Loan Guaranty Division office of the VA regional office here in Montgomery.

Mr. SHELBY. In the testimony last week in Washington, DC, the national office of the Paralyzed Veterans of America vehemently opposed the proposal by the Grace Commission and the OMB to change the VA buying program, I assume you are speaking in the same vein today?

Mr. COWART. Yes, sir.

Mr. SHELBY. Mr. Bilirakis?

Mr. BILIRAKIS. I would like to share with my colleagues and the audience the fact that the finest part of last year has been working on this committee. I don't really call it partisanship, I call it nonpartisanship. You are not a Democrat or Republican or a liberal or a conservative. I have been pleased with the floor of the House as far as veterans matters are concerned.

Obviously money does not grow on trees as many people in the country think, but I volunteered a few days ago to serve on the task force to review the Grace Commission recommendations and to choose those that we think are good.

Everybody in this room would feel that there are some good recommendations there, as well as a lot of bad ones. The task force is charged with choosing those which are good, and then trying to get them implemented. I am happy to say that that task force has recommended taking virtually all of the recommendations regarding veterans under advisement. I think the veterans are in pretty good shape as far as the Grace Commission is concerned. I am also very pleased, Mr. Chairman, to see these compliments of the Veterans'

Administration Office in Alabama, Mr. Conway, Mr. Moody, and the other people. It does me good to hear all of that.

I think Mr. Conway and others should be commended on the good job they are apparently doing. Do you feel there should be any changes made in the program? Is it a perfect program as it works now?

Mr. NELSON. I don't think any program is perfect, but I don't see that we could make any great number of changes to improve the program.

The testimony of Mr. Conway and Mr. Moody pointed out that the program is very successful.

Second, I say again that most any program can stand some improvement. I do not know of any right now that I would recommend.

Mr. BILIRAKIS. Do you think it is a good idea to afford a veteran the opportunity to be able to buy a $130,000 condominium on a no-downpayment basis?

Mr. NELSON. That is rather hard for me to answer. I can see instances where it would be against them because we do have some foreclosures. This may be the result of the fact that there are large loans without any down payment and the veteran gets himself in the position that he is not able to continue to meet those kind of payments.

Mr. BILIRAKIS. That is why I asked the question. So you are not necessarily doing that veteran any sort of favor by making that available to him, are you?

Mr. NELSON. That is right. I have one instance that I know of. This young fellow had gotten out of college and he was making $20,000 a year and he probably had never made more than about $12,000 a year, so he had become rich. He applied for and got a VA loan and had a house payment, and then he decided to go out and buy three automobiles and the first thing you know he was bankrupt. Of course, we do not have too many of those instances. I do know of that one particular one.

Mr. BILIRAKIS. Do you have anything to add to that, Mr. Cowart?

Mr. COWART. No, sir.

Mr. BILIRAKIS. Thank you, Mr. Chairman.

Mr. SHELBY. Mr. Charlie Cook, Greater Birmingham Ministries.

Mr. Cook, do you want to say a few words regarding this proposal by OMB?

STATEMENT OF CHARLES COOK

Mr. COOK. Thank you, Mr. Chairman. I would like to say that I am unemployed. Many of us are unemployed at the steel mills.

I was thinking about Mr. Bilirakis—he said it is a dream of the employee to purchase a home. That is his first dream, and now you look at the employment record. I have talked to several of the employed and there is a thing that gets to me. We are losing our homes, and as you said, buying a home was a dream from the beginning, but nobody seems to care about the family separation, and the debt that this thing has caused. Now I have talked to many of them and it is not a dream in their life any more. It is a tragedy.

You wake up in the morning thinking when you left home you had a job but the next day you do not have a job. I have talked to many of the employees losing their homes, and many of them are in the process of losing them even when they were still drawing unemployment compensation.

You take where I was employed. We have been out about 6 months, so many of us have exhausted all of our employment benefits. Many have no other way to make any money.

I would like to say three things related to my concerns as an unemployed veteran with a VA house note.

No. 1, the 1985 budget contained a proposal that has now been withdrawn for further study. If passed into law, this plan could make a bad situation even worse for many veterans. The proposal would prevent the VA from taking ownership of homes that veterans have lost to foreclosure. Instead, the VA would pay off the guaranteed portion of the loan and leave the house to be disposed of by the loan holder.

I oppose this plan for several reasons.

When a veteran loses his or her home, there has already been enough tragedy. By keeping the home after the veteran loses ownership, the VA has been able to help in this tragic time. In some areas around the country, the VA has been able to take ownership of these foreclosed homes and then rent them back to the veteran at a rate he and his family can afford.

This allows the veteran to remain in the house until he gets reestablished in the workplace. In some cases, the VA has even worked out a plan for the veteran to resume making payments under a renegotiated plan to pay off the original note. If the VA stopped taking these houses after foreclosure, these options would no longer be available to help the veteran stay in the house.

I know of many VA homeowners who might not be able to make their house note payment for an extended period of time, but they and their families are out getting whatever work they can find, and they could get together a small rental payment if the VA could accept this. If foreclosure is unavoidable, this option is a last ditch solution to keep the veteran in the home and, at the same time, bring in some income to the VA on the house. Therefore, I strongly feel that the VA should continue to take ownership of these homes that have been foreclosed on.

No. 2, I would like to support the VA refunding program as a way to help the veteran and the Government at the same time. By preventing foreclosure, this program prevents the VA from being left with an empty house and the veteran and his family being left without a house. By taking an assignment of the mortgage under the VA refunding program, the VA can provide some breathing space to veterans, like myself, who have been thrown out of work.

Under this program, the VA pays off the outstanding debt and becomes the lender to the veteran. At that time, the VA makes a sensible assessment of how and when the veteran can assume making payments on his house note. This puts some flexibility back into the system while an unemployed veteran looks for work. Many times, the veteran will qualify for this program so that he can eventually have the chance to pay off the note and have a home for his family.

The problems of unemployment can only be made worse if temporary trouble forces a veteran to lose all the equity he has worked so hard to build. It is not fair that this security can be lost in such a short amount of time after unemployment hits. The refunding program can help to give the veteran a fair amount of time to help himself. Losing a home is just about the worst thing that can happen to a family. We need and deserve some help as we try to hold on to our homes. The refunding program is a good and fair program.

No. 3. I would like to express my support for H.R. 2948, which has passed the House and is now being debated in the Senate. This bill would provide some measure of direct mortgage assistance to veterans who are thrown out of work through no fault of their own. In hard-hit areas like Birmingham, many veterans have already lost their homes and many more are still in danger of not being able to keep up the payments.

I feel that the Federal Government should make a new commitment to helping its veterans in their hour of need.

Mr. Chairman, I appreciate the chance for you to allow me to testify.

[The prepared statement of Mr. Cook appears on p. 27.]

Mr. SHELBY. We appreciate your candid remarks, and they are well taken.

I do want to mention H.R. 2948, the mortgage foreclosure relief bill that I had the opportunity to sponsor. A lot of other Members of the House cosponsored it with me, and it passed the House by 394 votes. It went over to the Senate and it is going to take people like you and the other members of this panel—service organizations and the people that care—to move it out.

We are trying hard. I think it was a bill of compassion. We tried to help and gave the VA a little more discretion to help people who were temporarily out of work. I think it is a good bill, and previous testimony has shown that this would save the VA money by reducing the foreclosure rate.

Mr. Bryant.

Mr. BRYANT. Mr. Chairman, I would just like to make the observation that this is one of the things in the Grace Commission, and I think it would be valuable for the people in Alabama as well as the people in Texas and every other State in the Union to recognize when we have various commissions appointed by the President, and are people that share his philosophy of government, that have made recommendations and have raised some serious questions about which I should say the validity of which is in question by an awful lot of people. This is only one portion of that report, and it is curious that we have a commission appointed by the President and making these recommendations.

Now we have a task force appointed to study the recommendations of the Commission before they are made to Congress—and it occurs to me that the leadership or the improvement of government ought to come from the President or the Congress, and it also occurs to me that people of the United States ought to take a hard look at this Commission report in general and look at this program as a specific indicator of how—I know we had some report from GAO that indicated that the report was—of the Grace Commis-

sion—was so fundamentally—to be almost useless in making an evaluation of any government program.

Certainly, there are some valuable suggestions in it. I hope that Congress will take a look at it. And I am sure they will.

Mr. SHELBY. Mr. Bilirakis, do you have any questions or further statements?

Mr. BILIRAKIS. No; just that I would agree with you, Mr. Chairman, that the No. 1 matter right now is saving this program, pushing through the bill that was referred to. And there are people out there that feel that letters to their Congressmen and Senators are needless; that they won't even be read. I think we need to let them know that we do read people's letters, and we do pay attention to people's letters. They can make the difference by writing to their Senators and Congressmen and urge that that bill be moved.

Mr. SHELBY. What we are trying to do is what is best for the country, what is best for the veterans, and to make this program work.

I appreciate all of the people who participated on the panels, the people in the audience, and the opportunity to visit Montgomery. We can stay in Washington and get Potomac fever, but we like to come home, whether it is to Florida, Texas, California, or Alabama, our home.

Thank you for coming out today. This will conclude our hearing.

[Whereupon, at 11:20 a.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

PREPARED STATEMENT OF JAMES W. CONWAY, DIRECTOR, VETERANS' ADMINISTRATION REGIONAL OFFICE, MONTGOMERY, AL

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you this morning to discuss the operation of the Veterans' Administration housing program. I have with me today Henry D. Moody, Loan Guaranty Officer; Donald M. Leavell, Chief, Loan Service and Claims; Annelle D. Tillery, Chief, Property Management; and Lawrence H. Kloess, District Counsel.

We are very pleased with the success of the GI Home Loan Program in Alabama. Since Congress enacted the law establishing the program some forty years ago, we have guaranteed over 175,000 home loans in the state, totaling over 3½ billion dollars. Of this number, 89,000—more than half—have been paid in full.

Mr. Chairman, to give you some idea about how the improvement in the nation's economy, along with the easing of interest rates, is reflected in our program I will give you a few facts and figures relating to the last three fiscal years.

Activity	Fiscal year—		Percent of increase or decline	Fiscal year 1983	Percent of increase or decline
	1981	1982			
Certificate of reasonable value	5978	3995	−33	10,063	+152
Loan applications	2650	3503	+32	6,012	+72
Eligibility determinations	5617	3526	−37	8,237	+134
Defaults processed	4036	3995	.....	4,234	+6
Properties acquired	435	449	+3	622	+39
Properties sold	143	186	+30	639	+244
Properties on hand (end of fiscal year)	297	505	+70	401	−21
Average number of employees	39.2	30.6	−22	35.5	+16

You can readily see that while our loan origination activity increased sharply, unfortunately our default and foreclosure also remained very high. We were able to dispose of a large number of our properties in inventory. This was due largely to Alabama being one of 14 test stations which were permitted to sell some properties in selected areas at an interest rate below the market rate.

The Special Adapted Housing Program is still very active in our area. In FY 1983, we assisted 17 severely handicapped veterans in either acquiring a specially equipped house with a maximum grant of $32,500 or in making some adaptations to a home the veteran already occupies with a maximum grant of $5,000. Over 1300 manhours were devoted to this very sensitive portion of our Loan Guaranty Program.

As the cost of conventional housing rises, we find our mobile home program steadily growing. The number of loan applications increased 150 percent in FY 1983. Although it is still not one of our major problems, quite a bit of interest is expressed by veterans, dealers and lenders. Therefore, a lot of time is expended in explaining the program to interested parties. Also, we make mobile home park inspections and are still required to make a certain number of on-site field inspections of individual units.

In addition to mobile homes, other alternative housing, such as Condominiums and Planned Unit Developments (PUD's) are receiving more and more attention in Alabama. We are directly involved in the p' nning and development of many of these projects.

Assisting veterans in acquiring adequate-affordable housing is, of course, our primary mission. However, in implementing the program we apparently assist many other parties connected with the housing industry. Home builders many times utilize our appraisal and compliance inspection service even though many of their houses may not be sold with VA financing. Our guidance is often requested by draftsmen, architects and builders in structural standards, energy conservation and the continuous effort to build more affordable housing. Also, since our appraisals can be converted to FHA, individual sellers, sometimes guided by realtors, seek our assistance in arriving at an estimated value of their property. Furthermore, realtors tell us that a home with a VA guaranteed loan on it is a very attractive buy on an assumption sale.

While our office has generally been able to stay within the agency's established time and quality standards on major work elements during Fiscal Year 1983, we did experience some problems due to the increased workload. Our Central Office readily recognized the need for some relief and temporarily reduced the required number of post audit loan application reviews, staff field reviews of appraisals and compliance inspections, review of management brokers' initial property inspections, etc. The quality of some program surveillance has not been as thorough as desirable under normal circumstances. Also, as defaulted loans increased, we have of necessity had to curtail the quality or our supplemental loan servicing. While we are still able to make contact with most debtors prior to foreclosure, the time needed for follow-up visits is not available. This has come about because the case load per loan service representative has increased from about 75 cases per month to over 350 per month.

To handle the increases in appraisal activity, loan applications, offers to purchase properties in inventory, etc., we worked as much overtime as possible and detailed employees from other divisions where feasible.

I would have detailed or reassigned more people to Loan Guaranty, but then our other programs would have suffered because the workload throughout the Regional Office has remained relatively heavy.

Assuming the economy and interest rates remain relatively stable, I do think we will need all the resources presently allocated to our Loan Guaranty Program. We all know, however, that should interest rates decline the resulting increase in workload would make it very difficult for us to continue to render good service to our Veterans, Mortgage Bankers, Builders, Realtors and other program participants.

Mr. Chairman, you requested that I give my comments on a proposal contained in the Fiscal Year 1985 budget relating to a change in the manner the Veterans Administration presently handles guaranteed loan foreclosures. Specifically, the proposed change would stipulate that VA pay the holder the guaranteed portion of the loan in the event of foreclosure and not take title to the property as we presently do in most cases. As you know, the implementation of this proposal will be delayed while a task force consisting of the VA, FHA, Farmers Home Administration and OMB develop uniform federal standards to determine when it would be in the best interest of the Government to acquire properties in Federal Housing Programs. Nevertheless, I have some information that might be of interest to you and your Committee.

Since Fiscal Year 1972, we have guaranteed over 64,000 loans in Alabama. Of this number 2,319 have been foreclosed. During FY 1983, we foreclosed 580 guaranteed loans, and after paying for acquisition costs, management fees, necessary repairs and a 5 percent sales commission, our average loss per property sold during the same period was $4,184. I wish to point out this average loss per property is much higher than any year, excluding one, since 1967. Although we did not have complete and accurate figures readily available to us, we randomly selected 10 percent of the 580 cases foreclosed during FY 1983 and found the average guaranty payable would have been $17,044.

Mr. Chairman, in conclusion, I think our Loan Guaranty Division has continued to give timely and quality service to all of our Program Participants comparable to any other station. For several years we have generally given one-day service on loan applications and final compliance inspections reports which I am told, we are one of the few stations offering this service.

We will be pleased to answer any questions you may have.

PREPARED STATEMENT OF JOHN HOLLEMAN, CHAIRMAN AND PRESIDENT, REAL ESTATE FINANCING, INC.

Real Estate Financing, Inc., was founded in 1946 for the purpose of providing a means for the average family to purchase a home. It is a moderate sized mortgage

company operating in five southern states. Its business includes Veterans' loans through the Loan Guaranty Program. This company through the years has closed loans, without hesitation, based on VA's approval of the credit and property. Our minimum guaranty guidelines through the years have been patterned after the requirements of FNMA and GNMA, which is the standard practice in the industry. This procedure has been carried forward through the years because of the Veterans Administration's practice of paying a claim and disposing of the property itself, even though it has always had the option of either paying the guaranty and not taking title to the property or paying the claim and taking title to the property. For the Veterans Administration to reverse itself in a retroactive manner will have a tremendous financial impact on lenders who have left the credit decision to VA through the years in good faith.

Because of the financial impact if lenders are forced to accept Payment of Guaranty and dispose of the property, lenders will necessarily have to place more stringent underwriting guidelines on VA loans especially since the majority of VA loans have no down payments. In all probability, lenders will require either a cash down payment or some type of equity in the property by the Veteran. The equity requirement and more stringent underwriting guidelines will make it impossible for many Veterans to take advantage of the benefits of a VA loan. It can aso be expected that lenders will require a higher percentage of guaranty than in the past. This will prohibit Veterans who have used a portion of their guaranty from qualifying for another loan. Lenders will also be forced to take a different approach to release of guaranty on assumption of VA loans. This procedure in itself will create a hardship to many Veterans who, for whatever reason, find it necessary to sell their property.

Because of the VA's long standing practice of disposing of foreclosed properties, our company has been very lenient with Veterans in servicing their loans. We have been available to counsel, assist and accommodate the Veteran, when needed, and have gone the "extra mile" even though it is sometimes costly to our company. While we will certainly continue to service VA loans in accordance with applicable guidelines, our servicing procedure will not be as liberal as in the past.

For the reasons stated above, we sincerely believe Veterans presently owning homes with a VA loan, and Veterans with future plans to acquire a home through this earned benefit will be penalized. If it becomes feasibly impractical for institutional lenders to make VA loans, it is entirely possible the Veterans Administration will be forced to fund loans which will necessitate the Veterans Administration becoming its own lender. As you can readily see this will be more expensive to the government than the present practice of paying claims.

Historically the VA Regional Office in Alabama has done an outstanding job and this has certainly been the situation in recent years. The personnel in this office has been effective in putting the Veteran's interest first; making a positive contribution to the building industry in Alabama; maintaining excellent relationships with builders, realtors and financial institutions throughout the State, and serving as a valued communications link between the Veteran, the building industry and the Administration. Our company has received superior service and cooperation in all phases of the business. During the recent period of economic difficulties in Alabama, there were, of course, a high volume of properties foreclosed with VA guaranteed mortgages. The Loan Service and Claims Section did an excellent job processing foreclosure request and processing claims in a timely manner. During 1983 with the reduction in interest rates there was a big demand for loans, from both new sales and refinancing for a lower interest rate. Additionally, there continued to be a large number of foreclosed properties. During this stressful period the Regional Office provided excellent service in all areas. We did observe, however, the VA was running at full capacity with personnel from other departments transferred to the Loan Guaranty Division. With any substantial decline in interest rates in the future, the volume realized will require substantial personnel increases.

We would therefore conclude that the present system has been effective in providing an excellent financing vehicle for Veterans and that the actual providing of this service through the VA has been carried out in a superior manner. We understand the economic necessity of reducing the government deficit and support this concept but feel that relief from the foreclosure losses will come through economic recovery. A reduction in the VA loan program will result in a negative national economic impact as well as curtail a valuable Veterans benefit.

If in the future it is determined that it is in the government's best interest to change the guaranty procedures it should not be retroactive to loans made in anticipation of the VA paying the claim. We feel that if the credit decision and forebearance procedures are made by VA or in accordance with their rules, the resulting foreclosed property should be their responsibility. If we have the property responsi-

bility with VA only paying the guaranty, it will necessitate in most cases a more restrictive credit decision and different collection and assumption procedures.

With the apparent real possibility of a procedural change, prudent mortgage banking would require adoption of the different procedures unless there is some affirmative assurance that a retroactive change of this nature will not take place in the future. We hope that these hearings are helpful in clarifying this situation and stand ready to assist in any manner possible to enable this valuable program to continue in an effective manner.

PREPARED STATEMENT OF JOSEPH R. WELLS, CMB, EXECUTIVE VICE PRESIDENT AND OPERATIONS OFFICER, ENGEL MORTGAGE CO., INC.

Chairman Shelby on behalf of Engel Mortgage Company I want to thank the subcommittee members for taking the time to come here today to hear our concerns about the VA Guaranteed Home Loan Program.

Engel services 62,669 mortgage loans in 15 States with principal balances totaling $1,915,280,000. There are 24,178 VA guaranteed loans totaling $784,000,000. During 1983 Engel originated 2,522 VA loans with principal balances of $139,410,000. We also service 29,115 FHA loans with outstanding principal balances totaling $675,112,500. During 1983 Engel originated 1,885 FHA loans with principal balances totaling $86,423,000.

Our company is very active in the VA Guaranteed Loan Program throughout the southeastern United States. I would like to take this opportunity to tell you that the Veterans Administration regional office in Alabama should be commended for the quality of service that the staff renders to the mortgage banking companies in our area. My staff continues to tell me that this office renders excellent service in all phases of the VA guaranteed loan program.

I would also like to take some time to address the recommendations of the President's private sector survey on cost control (Grace Commission) as they relate to the VA Home Loan Guaranty Program. I will not take the time to reiterate the full report of the Grace Commission or the commission's VA task force recommendation as I am sure that this subcommittee is already familiar with these reports.

The proposal that the Veterans Administration no longer respond to defaults on VA guaranteed home loans by acquiring foreclosed properties but rather pay all lending institutions the guaranteed portion of the loan and leave the loan holder to dispose of the property in my opinion would result in higher costs to the Federal Government. Using the Grace Commissions FY 1982 statistics in its final report it is easy to show that if the nonacquisition policy was implemented, the VA would have spent $169.25 million to save $68.005 million. This is an increased cost of $101 million. It is hard for me to understand how the administration could conclude that the VA could save money by employing the policy of paying the guaranty amount.

Using the figures from the final report of the commission that the average loss on acquired property was $6,700 and that the average guaranty payment on those same properties would have been $16,675 it is easy to see that the impact on the veterans would be severe. The full amount of this payment to lenders is charged as a debt against the veteran and collected by the government. Currently, in 25 percent or in one of every four cases, the veteran who loses his home is not indebted to the government because the value of the property equals or exceeds the outstanding loan balance. Instead of this current situation, the administration's policy change would result in debts being established against all veterans who experience foreclosure.

The shift of risk involved in a non-acquisition policy, and any resulting losses to the lending community, would necessarily result in less opportunity for the veteran to obtain housing finance and in higher costs of borrowing for the veteran. Those lenders willing to make VA loans would be forced to impose more stringent underwriting requirements on veteran borrowers. Consequently, many veterans who could qualify for financing under the VA's credit guidelines would be unable to satisfy the lender's necessary additional requirements.

One of the most valuable benefits to the veteran of the VA Home Loan Program is the unique no-down payment feature. A veteran may now buy a home with no-down payment, providing his or her income is sufficient to support payments; the VA program is, in fact, the only home mortgage lending program that carries a no-down payment feature. If lenders have to assume an increased risk on default, we would be unwilling to make a VA loan without the equity of a down payment.

If the VA abandons its tradition of accepting title to property, we may be forced to try to recover the added losses on VA foreclosures by increasing the discount points to the seller on new loan transactions. Interest rates on conventional and

FHA mortgages float with the market and do not require as many discount points. When the points required to compensate the lender for the recommended change in the VA's policy for acquiring properties are added to the points resulting from the administered VA interest rate, I fear that the veteran will be priced out of the market.

I urge that the current VA practice in foreclosure cases remain unchanged. Any wholesale change in the current practice will not eliminate the problem of losses suffered on disposition of foreclosed properties. The VA, which has a structure in place to handle property acquisition, maintenance, and disposition, is better equipped than many individual lenders to handle the task of dealing with the lingering effects of the past recession. Shifting the burden to private lenders who will be forced to recover their increased costs from veteran borrowers entering the home market in 1984 and beyond is an unwise and ultimately shortsighted answer.

PREPARED STATEMENT OF RONNIE J. WYNN, PRESIDENT, COLONIAL MORTGAGE CO., MONTGOMERY, AL

Mr. Chairman and Members of the Subcommittee, my name is Ronnie J. Wynn. I am President of Colonial Mortgage Company, a regional mortgage banking firm based here in Montgomery, and a member of the Executive Committee of the Mortgage Bankers Association of Alabama. My comments today represent both the views of my company as well as the Association.

Before beginning my testimony, Mr. Chairman, I want to thank you for the Strong support you and your committee have provided to the lenders and Veterans of the State of Alabama through your actions relating to the VA Housing Programs. All state Veterans as well as those of the entire nation, can rest assured someone in Washington is looking after their best interest when it concerns their housing benefits.

We appreciate the opportunity to appear before you today to testify on several matters that could impact on the VA home loan guaranty program. Before I speak to each issue I would like to address the administering of the VA home loan guaranty program here in Alabama.

ALABAMA VA HOME LOAN GUARANTY PROGRAM

I believe I speak for all parties involved with the VA home loan guaranty program in Alabama when I say thanks to Mr. James W. Conway and staff for a job well done. Under the leadership of Mr. Henry Moody, Loan Guarantee Officer, Veterans, lenders, builders and realtors alike find a department dedicated to one goal—Helping and Protecting the Veterans. Their knowledge of loan guaranty programs, their ability to implement the programs and, just as important, their attitude to get the job done as quickly as possible is truly outstanding. All the citizens of Alabama are indeed fortunate to have such a group of dedicated people administering the VA loan guaranty programs in our state.

PROPOSAL TO DISCONTINUE ACQUIRING PROPERTIES AFTER DEFAULT

In his FY 1985 budget the President made statements that if implemented would make substantive changes in the way the VA home loan guaranty programs operate. We feel that implementation of these changes would have a detrimental effect on the citizens of Alabama who are entitle to benefits under the VA home loan guaranty program.

The VA home loan guaranty program is an entitlement program established under the Serviceman's Readjustment Act of 1944. The program provides two primary benefits to qualified Veterans. First the VA guarantees a portion of the Veterans mortgage principal. The second benefit offered by the program is the stipulation that no downpayment need be required by the lender. In other words the lender may loan 100% of the appraised value. No other type loan offered by lenders offers this advantage to the borrower.

Since its inception if a VA loan, as a last resort, must be forclosed, VA has taken title to the property and disposed of the property. The Administration proposed that VA cease to acquire properties and pay the guaranty to the lender. This proposal rested with recommendation made by The Grace Commission task force. We suggest that the two major points of the task force contain erroneous assumptions. Point one is that VA will save money by paying the lender the guaranty amount instead of taking title in case of a default case. VA past experience shows that, since 1979, the average loss on properties acquired and subsequently sold is about $10,000.00

less than if the VA had paid the average guaranty of those properties. Point two, the task force compared the VA's experience with foreclosed properties with methods used by the private mortgage insurance industry. The Commission overlooks a crucial variable—risk exposure. PMI companies guarantee only 20 to 25 percent of the loan amount. Consequently, for loans with similar balances outstanding, their liability is far less in the case of a foreclosure than the VA's, which guarantees 60 percent of the loan amount up to $27,500.00.

The obvious question is, of course, what effect would this change have on the Veteran. If implemented VA-guaranteed loans would be perceived as carrying a much larger share of risk to the lenders in the mortgage markets. Lenders would begin to apply more stringent underwriting procedures to applications of prospective VA borrower and might even cease to offer VA-guaranteed loans in small towns, rural areas, and economically depressed areas where a foreclosured property might be especially difficult to sell. To offset potential loss the lender might refuse to make a VA loan with no downpayment which is one of the greatest benefits offered a Veteran. A higher yield would be required in the market, a cost which would be passed on to the Veteran, to compensate investors for the additional risk they are accepting by purchasing a VA-guaranteed loan. Their effects seem directly opposed to the concept that legislators had for the VA loan guaranty program at its inception in 1944.

We understand that the implementation of the proposed change will be deferred until at least October 1, 1984. We strongly urge your committee to support the Veterans of this state by opposing the implementation of this change.

INCREASE IN GUARANTY MAXIMUM

We support the proposal included in H.R. 4685, introduced by yourself and others, to increase the maximum amount of the VA loan guaranty from $27,500.00 to $30,000.00 for home loans. Your proposal recognizes the increasing cost of new and existing housing. From 1974 to 1983 the medium price of new single-family homes sold jumped from $35,900.00 to $75,100.00, an increase of 109 percent. The increase to $30,000.00 would bring the relationship between the level of the guaranty amount and the increased cost of housing closer to historical ratios.

FREE VA INTEREST RATE AND ADJUSTABLE RATE MORTGAGE

We suggest that if the VA loan guaranty program is to continue to effectively convey to Veterans the benefits intended by Congress it must face the reality of today's market place. Under current law the maximum interest rate allowable on a mortgage guaranteed by the VA is fixed by the VA Administrator. Current law does not allow for ARM's (Adjustable Rate Mortgage) to be guaranteed by the VA.

While in years past there were valid reasons for administering the interest rate and no need for an ARM program, economic conditions have permanently changed these reasons. The residential mortgage market is no longer dominated by a few suppliers of mortgage credit. Disclosure laws have been drastically improved. The volatility of interest rates has taken many investors out of the fixed rate market. Congress recognized these changes in the "Housing and Urban Rural Recovery Act of 1983" by freeing the FHA rate and allowing FHA to insure ARM's. We strongly urge your committee to propose legislation which would recognize the changes of the market place so that Veterans housing benefits would be kept in parity with other citizens of the state.

I appreciate this opportunity to appear before the Subcommittee today and would be happy to furnish any additional information, if needed.

PREPARED STATEMENT OF ISAAC NELSON, COMMANDER, DEPARTMENT OF ALABAMA, DISABLED AMERICAN VETERANS, MONTGOMERY, AL

Mr. Chairman and Members of the Subcommittee; on behalf of the 10,858 members of the Disabled American Veterans in Alabama, I appreciate the opportunity to present our view on legislation and issues relative to the home loan guaranty program of the Veterans Administration.

As you know, the Veterans Administration was originally established to oversee a program of disability compensation and pensions for veterans, their widows and orphans. History prior to 1933 would serve no useful purpose at this hearing.

With the advent of World War II, several satellite programs for veterans were established with one of the most successful being the home loan guaranty program.

Currently, the VA can acquire foreclosed property in an effort to cut its losses by paying off the lender and selling the property. The VA can recover most of its money; the lender is guaranteed against any loss; and the veteran population benefits because lenders are more apt to consider their loan applications. Opponents of the proposal by the President, as part of the VA's FY '85 budget, to discontinue this practice, feel that it would provoke lenders to tighten criteria for loan eligibility, thus excluding many veterans from purchasing homes.

We oppose this policy change on the same basis. Such a change would deal a devastating blow to veterans, especially the younger Vietnam veterans, in obtaining a guaranteed home loan through the VA. Lending institutions are in the business of lending money and not in the business of selling houses. Also, a move of this type would result in a greater hardship against a veteran in default, in the realm of leaving him with a larger overpayment on his part with no recourse. We feel that the proposed change would reduce the quality and quantity of services provided by the VA to this nation's veterans. This is another of the many fallacies recommended by the Grace Commission.

We feel that Mr. Conway, Director of the local VA Regional Office, and his staff, would be in a better position to give you statistical data on the workloads rendered by his office. As to the efficiency of the program as administered by this Regional Office, we believe it to be the best. I individually have requested expediate action on their part so that a veteran might get timely service in order to meet certain deadlines which would give them the advantage of lower interest rates. On several occasions, this was accomplished by some of the key personnel working overtime without compensation.

Again, on behalf of the membership of our organization, I thank you for extending us this opportunity to participate in today's hearing.

PREPARED STATEMENT OF CHARLIE COOK, GREATER BIRMINGHAM MINISTRIES

I want to talk about three things related to my concerns as an employed veteran with a VA house note.

(1) The 1985 budget contained a proposal that has now been withdrawn for further study. If passed into law, this plan could make a bad situation even worse for many veterans. The proposal would prevent the VA from taking ownership of homes that veterans have lost to foreclosure. Instead, the VA would pay off the guaranteed portion of the loan and leave the house to be disposed of by the loan holder.

I oppose this plan for several reasons.

When a veteran loses his or her home, there has already been enough tragedy. By keeping the home after the veteran loses ownership, the VA has been able to help in this tragic time. In some areas around the country, the VA has been able to take ownership of these foreclosed homes and then rent them back to the veteran at a rate he and his family can afford. This allows the veteran to remain in the home until he gets re-established in the workplace. In some cases, the VA has even worked out a plan for the veteran to resume making payments under a renegotiated plan to pay off the original note. If the VA stopped taking these houses after foreclosure, these options would no longer be available to help the veteran stay in the house.

I know of many VA homeowners who might not be able to make their house note payments for an extended period of time. But they or their families are out getting whatever work they can find, and they could get together a small rental payment if the VA could accept this. If foreclosure is unavoidable, this option is a last ditch solution to keep the veteran in the home and, at the same time, bring in some income to the VA on the house.

Therefore, I strongly feel that the VA should continue to take ownership of these homes that have been foreclosed on.

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